ontario northland
transportation commission

2003

annual report

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

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company overview

The Ontario Northland Transportation Commission (Ontario Northland; ONTC; the Company), an operational enterprise of the Province of Ontario, was established in 1902 and is a recognized leader in promoting sustainable economic growth by establishing and operating transportation and telecommunication links throughout Northern Ontario.

Headquartered in North Bay and operating primarily in northeastern Ontario, Ontario Northland's services include:

- scheduled and charter motor coach services;
- rail freight services;
- rail passenger services (the Northlander passenger train service between Cochrane and Toronto; the Little Bear freight and passenger train service between Cochrane and Moosonee and the Polar Bear Express summer excursion train between Cochrane and Moosonee); and
- telecommunications services provided by O.N. Telcom.

corporate services

Corporate Services provides a range of services to all areas of the Ontario Northland Transportation Commission and, in some cases, to the general public. Corporate Services provides centrally administered resources in the areas of Finance, Human Resources, Information Technology Support, Planning and Development, Public Affairs, Purchasing, Legal, and Security. Corporate Services is committed to providing cost effective, dependable and high quality services to its customers.

Highlights

This year Corporate Services continued in the development of ARTISSS (Automated Rating, Ticketing and Interline Settlement Software System), to provide a fully integrated solution for passenger ticketing and bus parcel express sales and accounting functions.

We also transitioned to a new provider of custody services related to the Ontario Northland Transportation Commission contributory pension fund with savings of approximately 70% over previous arrangements. Additionally, we completed an extensive review of locomotive inventory, along with changes to the inventory management system to better meet the needs of related departments, thus resulting in the identification of a number of obsolete items that were disposed of.

Corporate Services extended the corporate wide area network (WAN) to include all northern locations, thereby providing the same level of service and speed to all points on the network. We also initiated planning for migration of core financial software to new technology AS/400 with a scheduled completion date of early 2004.

Finally, we sold the Sault Ste. Marie hangar as part of the continuing effort to maximize the value of Ontario Northland's real estate.

Challenges

Major challenges saw us having to successfully react to the impact of a continually slowing economy on operating divisions.

The division continued to search for increased efficiencies within our operations and used improved health and safety awareness to reduce time and resource losses in the areas of staff, equipment and processes.

Health and Safety

It was a particularly aggressive year for Corporate Services with respect to our safety initiatives. To begin, we spearheaded the completion of repairs to the bulk fuel delivery system, along with overseeing the provision of a system for ongoing monitoring of supply lines, plus provided training for all members of ONTC workplace safety committees on risk management and job safety analysis.

We also reviewed and updated all ONTC safety management system standards, along with developing a comprehensive training manual for Transportation department employees. Additional safety programs included: enhanced security throughout Ontario Northland's operating territory; participation/organization of a number of community directed safety initiatives, including a mock car/train collision exercise in Cochrane involving a number of community based emergency response groups; participating in Operation Lifesaver presentations throughout Northeastern Ontario and in a number of Ontario Provincial Police (OPP) snowmobile safety courses informing people of the hazards of snowmobiling on railway property.

Performance Targets

Collectively, the cost centres that make up Corporate Services were under budget by 2.5% or $270,000 - before accounting for pension, non-pension post retirement and Worker's Safety Insurance Board (WSIB) expenses. Lost days due to injuries were reduced by 18% over the previous year and lost time injuries increased by three occurrences over last year - from 38 to 41.

motor coach services

Ontario Northland's Motor Coach Services division operates a fleet of 23 highway motor coaches, 11 of which are new 55-seat coaches, and six of which are wheelchair accessible. The department operates scheduled bus service between Hearst and Toronto travelling through North Bay and Sudbury. Charter and tour services cover Canada and the United States. Bus Parcel Express (BPX) is handled by scheduled bus service routes, with connections across the continent offered through partnerships with other carriers.

Highlights

The motor coach replacement program continued in 2003 with the purchase of two 55-seat wheelchair accessible coaches. These new coaches increased the complement of wheelchair accessible coaches to six, in keeping with our commitment to provide barrier-free transportation to our passengers.

A major restructuring of the division took place during the year and a positive labour/management relationship continues to be the focus of the new team.

Plans for a new maintenance and administration facility are being developed. This facility would improve efficiency and provide the cornerstone for future growth of the division.

Challenges

Despite the ongoing motor coach replacement program, managing the maintenance requirements of an ageing fleet is a constant challenge. The division has outgrown its current maintenance facility, which is over 100 years old and past its useful life.

Health and Safety

Further development of standards for the safety management system occurred throughout the year, while lost days due to injuries were reduced by 32% over 2002. A pilot program was initiated to encourage employees of the Motor Coach division to improve their fitness levels through membership at local fitness clubs. This program was highly successful and will be continued in 2004.

Performance Targets

Scheduled service was up 8% to 254,646 passengers from 235,759 passengers in 2002, while charter revenue decreased by 18% to $776,000 from $946,000 in 2002. This is a direct result of decreased equipment availability due to a renewed focus on preventive maintenance. BPX revenue decreased slightly to $1.1 million from $1.2 million, a decrease of 2%.

rail freight services

Ontario Northland's rail division operates a 700-mile rail system transporting a wide range of commodities to and from Northeastern Ontario and Northwestern Quebec. Contract shops perform a variety of work for external customers, including rebuilds, repairs, and overhauls.

Highlights

The divestiture of Ontario Northland was abandoned when CN withdrew its offer to purchase the Company. At the same time, approval was gained to lease an additional 100, 73-foot center beam lumber cars, increasing the lumber car fleet by 40%.

This 2003 season began our second of a five-year passenger coach and passenger food service coach refurbishment program, which will provide a second set of five coaches with new interiors, flooring and painting. As well, work began on preparing a submission of bid to GO Transit for the refurbishment of 121 transit cars over a six-year period.

O.N. Rail also continued focus on track maintenance and improvement by installing 10 miles of new track, 50,000 ties, approximately 50,000 tie plates, 60,000 tonnes of crushed rock ballast, and surfacing and lining of 300 miles of existing track. Finally, the completion of a two-year boxcar rebuild program resulted in over 100 boxcars in the wood pulp service undergoing significant upgrade work.

Challenges

Freight customer labour disputes, plant shutdowns, and production curtailment continued to impact revenues. The softwood lumber dispute continued to hamper production and had an impact on revenues during 2003.

The dramatic increase in value of the Canadian dollar in relation to the US dollar contributed to production curtailment, for our exporting freight customers. Additionally, the cost of fuel increased by 11% and there was an introduction of a fuel surcharge program for freight customers.

Health and Safety

Days lost due to injury were reduced by 10% as a result of a continued focus on employee safety and early return to work programs.

Performance Targets

Freight trains operated within 30 minutes of schedule, reaching an average target of 88.9%, with the amount of track under slow order averaging 4.2%, bettering the target of 5%.

Revenues fell short of budget by 4.3%, 1.4% less than the previous year and expenses were over budget by 1.1%, a 4.2% increase over the previous year. The overall profit was off budget by approximately $3.6 million.

rail passenger services

Rail passenger services include the Northlander (a passenger train travelling between Cochrane and Toronto, with connections to Timmins and Hearst), the Little Bear (a mixed passenger/freight train travelling between Cochrane and Moosonee), and the Polar Bear Express (a summer rail excursion travelling between Cochrane and Moosonee).

Highlights

The ONTC received tremendous support from its First Nations partners this year through successful cooperative train ventures for hockey tournaments and even a Christmas shopping special.

The year 2003 also saw a renewed interest for passenger rail in the communities of Huntsville, Bracebridge and Temagami. Huntsville purchased its train station from CN Rail and has started to restore it to its former glory. Ontario Northland committed to reinstate stopping the Northlander train in Bracebridge and the town will soon be constructing a passenger shelter and ultimately hopes to replicate their former station. The restoration of the Temagami station was a labour of love by a dedicated few, resulting in a transformation of an old heritage station building into an historical jewel.

Challenges

Severe Acute Respiratory Syndrome (SARS), West Nile, Mad Cow, and the lingering effects from the events of September 11, wreaked havoc on Ontario's tourism industry, approximating a six billion dollar loss. However, Ontario Northland's Polar Bear Express was one of the only major attractions in Ontario to attain a moderate improvement in revenue supported by focused radio and print media initiatives.

In a letter to the ONTC, the Town of Cochrane with its Moosonee and Moose Factory hotel and tourism partners credited Ontario Northland for saving the area's summer tourism through its focused radio and print media initiatives.

Health, Safety and the Environment

Ontario Northland is in the second year of a five-year project to refurbish its passenger car fleet. This will include the installation of waste retention systems on conventional coaches in keeping with the ONTC's progressive approach relative to environmental improvements.

Effective September 2003, all Ontario Northland trains were designated as completely non-smoking.

Three lost time accidents were recorded in 2003.

Performance Targets

Northlander passenger train ridership decreased marginally to 31,189 from 31,673 in 2002, while Polar Bear Express ridership decreased to 12,868 from 13,054 in 2002. This is viewed as a remarkable achievement in what was Ontario's worst tourism year in recent history. Little Bear passenger train ridership increased to 35,339 from 35,054 in 2002. This train has been experiencing consistent growth.

While the Cochrane Station Inn's occupancy rate peaked at 91% in July and August, we experienced an annual occupancy rate of 40.05%, recording a decrease of 1.3% from 2002.

o.n. telcom

O.N. Telcom, a fully integrated telecommunications company, offers a wide range of telecommunications and IP-based solutions including Internet, long distance, voice, data, and information technology services throughout Northern Ontario. O.N. Telcom is the sole provider of local telephone services in Moosonee, Moose Factory, Iroquois Falls, Temagami, and Marten River and the provider of cellular services in Moosonee and Moose Factory. ONLink, O.N. Telcom's Internet service provider, offers a full range of services in more than 85 communities across Northern Ontario.

O.N. Telcom's traditional network in Northeastern Ontario encompasses a territory in excess of 200,000 square kilometers and serves a population base of 150,0000 people. It stretches out to link communities from North Bay, to those along the Highway 11 North corridor, then continues along the rail line to Moosonee and northward to reach some of the most remote locations along James Bay and Hudson's Bay. O.N. Telcom's network in this traditional marketplace, when stretched, out is some 1,300 kilometers long, equivalent to the distance between Windsor and Quebec City.

O.N. Telcom's recent network expansion extends the organization's reach west to fully include the communities of North Bay, Sudbury and Sault Ste Marie and many points in between.

The redefining of the service improvement plan initiated by our shareholder in 2001, from one based on achieving the privatization of O.N. Telcom through divestiture, to one focused on retention and partnering for growth through strategic alliances, represents the most significant event in 2003. This shift in direction resulted in the development of a five-year strategic business plan with an alliance partner being submitted prior to year-end for approval.

Highlights

School board WAN contract renewals were signed with three boards, headquartered in North Bay, for three-year terms. Final NetCentral and ADnet CBN SAP deployments were completed for December 31, 2003 and sales process design and linkages to broader company processes were also developed and implemented in November 2003.

More than 20 libraries were connected to high speed Internet in both the Algoma and Temiskaming-Cochrane regions through the Southern Ontario Library Service (SOLS) Program primed by ADnet in May 2003. O.N. Telcom also completed an IP telephony implementation for the Sudbury Neutrino Observatory in November 2004 and successfully became a vendor of record for the Smart Systems for Health.

And finally, BRAND and COBRA funding submissions were delivered for the Blue Sky, Temagami and Western James Bay areas to secure funding for expanded high speed Internet deployment in rural areas.

Challenges

During 2003, O.N. Telcom continued to feel the impact of CRTC Decision 2001-583, allowing the introduction of toll competition into our traditional markets, effective January 1, 2002. Uncertainty in the marketplace with respect to O.N. Telcom's future, given the Province's announced intent in 2001 to pursue divesture, continued to present a challenge in pursuing growth opportunities.

Health and Safety

In terms of safety, O.N. Telcom had another impressive year, repeating for the second year in a row a zero lost-time accident record.

Performance Targets

Even with CRTC Decision 2001-583, financial results for 2003 were better than budgeted. Overall revenue was better than budget by $4.2 million, while expenses were approximately $1.0 million over budget. Net loss for the year was $5.9 million, significantly better than the anticipated budgeted loss of $9.1 million.

ontc financial overview

The Ontario Northland Transportation Commission (ONTC) lost $7.0 million in 2003, an increase of $2.2 million compared to the loss of $4.8 million in the previous year. In total, and before discontinued operations, operating revenues declined approximately $2.8 million year over year, with the majority of the decline occurring in telecommunications and rail services, attributable in part to a weak economy in 2003. Increases in operating expenses were approximately $5.8 million, of which $2.4 million can be attributed to increases in pension, non-pension post retirement and WSIB expenses. The balance of the increase may be attributable to higher fuel, repair and wage costs in rail services and restructuring expenses in telecommunications.

From a non-operating perspective, expenses remained relatively constant. Gain on sale of capital assets increased slightly with some real estate sales. Service improvement plan costs decreased approximately $1.5 million from 2002 levels, due to a continuing wind down of expenses in this area. A one-time reimbursement of service improvement costs in the amount of $4.9 million was reflected in the 2003 results.

On the balance sheet, total assets remained essentially unchanged. Increases in cash and cash equivalents and accounts receivable were offset by a decline in accrued pension benefit assets. From a liabilities and equity point of view, the operating line of credit and contributed surplus increases were offset by declines in long-term debt and, of course, equity, as a result of the loss in the current year.

K. Donnelly - Vice-President
Finance and Administration

commission members and principal officers

Commission Members

R. Poulin - Chair - West Nipissing
(April 19, 2000 - July 2, 2004)

V. Monestime Belter - Commissioner - Mattawa
(July 3, 1996 - July 2, 2004)

W.P. Clement - Commissioner - Sudbury
(July 3, 1996 - July 2, 2004)

S.L. Hacio - Commissioner - Thunder Bay
(July 3, 1996 - July 2, 2004)

B. Hopkins - Commissioner - Tobermory
(February 25, 1998 - July 2, 2004)

R. Lamb - Commissioner - Matheson
(June 30, 1996 - July 2, 2004)

P. Lamont - Commissioner - North Bay
(July 31, 2002 - July 30, 2004)

L. Richards - Commissioner - Timmins
(July 3, 1996 - July 2, 2004)

Principal Officers

R.F. Hains - Executive Vice-President
Service Improvement and Operations

C.M. Boston - Vice-President
Corporate Strategy, Development & Service Improvement

S.G. Carmichael - Vice-President
Rail

R.J. Cushing - Acting Vice-President
O.N.Telcom (Appointed July 2003)

K. Donnelly - Vice-President
Finance and Administration

B.R. Wheeler - Vice-President
O.N.Telcom (January - July 2003)

R.M.Thompson
Counsel

management's responsibility

The ONTC's management is responsible for the integrity and fair presentation of the consolidated financial statements and other information included in the annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements demands the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods. All financial information in the annual report is consistent with the consolidated financial statements.

The Commission maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The consolidated financial statements have been reviewed by the Commission's Audit and Finance Committee and have been approved by its Governing Board of Commissioners. In addition, the Ontario Provincial Auditor, whose report follows, has audited the consolidated financial statements.

R.R. Poulin - Chair and Acting CEO

Roy Hains - Executive Vice-President
Service Improvement and Operations
North Bay, Ontario

auditor's report

To the Ontario Northland Transportation Commission and to the Minister of Northern Development and Mines

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 2003 and the consolidated statements of investment by Province of Ontario, operations and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

J.R. McCarter, CA - Assistant Provincial Auditor
Toronto, Ontario
March 31, 2004

Consolidated Balance Sheet

(dollars in thousands)

December 31	2003	2002
Assets		
Current		
Cash and cash equivalents	$ 1,563	$ -
Accounts receivable (Net of allowance - $1,281; 2002 - $990)	21,102	20,190
Inventory	10,629	10,668
Prepaid expenses	277	357
	33,571	31,215
Self-Insurance Fund (Note 2) - Market value $5,887; (2002 - $5,489)	5,793	5,474
Investment in property, plant and equipment (Schedule 1)	256,417	256,963
Accrued pension benefit assets (Note 4)	128,618	131,530
	$ 424,399	$ 425,182
Liabilities and Province of Ontario Equity		
Current		
Bank overdraft	$ -	$ 248
Operating line of credit (Note 3)	23,000	17,000
Accounts payable and accrued liabilities	22,102	23,537
Current portion of long-term debt (Note 5a)	2,276	2,223
Deferred revenue	788	285
	48,166	43,293
Provision for Self-Insurance (Note 2)	5,793	5,474
Long-term debt (Note 5a)	26,223	28,478
Accrued Non-Pension Benefit Obligation (Note 4)	54,150	53,720
	134,332	130,965
Contingencies/Commitments (Note 8)		
Province of Ontario Equity		
Investment by the Province of Ontario	69,603	66,743
Retained earnings	220,464	227,474
	290,067	294,217
	$ 424,399	$ 425,182

Approved on behalf of the Commission:

Chair and Acting CEO

Executive Vice-President
Service Improvement and Operations

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Statement of Investment by the Province of Ontario

(dollars in thousands)

For the year ended December 31	2003	2002
Balance, beginning of year		
Net investment in property, plant and equipment	$ 17,794	$ 16,465
Net investment other than share capital (Note 5b)	48,949	48,949
	66,743	65,414
Net changes during the year		
Contributions from Province of Ontario (Note 6b)	4,221	3,398
Retirements	(665)	(1,426)
Amortization	(696)	(643)
	2,860	1,329
Balance, end of year		
Net investment in property, plant and equipment	20,654	17,794
Net investment other than share capital (Note 5b)	48,949	48,949
	$ 69,603	$ 66,743

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Statement of Operations and Retained Earnings

(dollars in thousands)

For the year ended December 31	2003	2002
Revenues (Schedule 2)	$ 129,181	$ 131,453
Expenses (Schedule 2)	123,644	117,805
	5,537	13,648
Other revenues and expenses		
Amortization (Schedule 2)	14,659	14,191
Interest expense (Schedule 2)	2,303	2,260
Investment and other income	(21)	(44)
Gain on sale of property, plant and equipment (Schedule 2)	(372)	(166)
Net expenses	16,569	16,241
Loss before the following items	(11,032)	(2,593)
Service improvement plan costs (Note 1)	(878)	(2,309)
Recovery of service improvement plan costs (Note 1)	4,900	-
Discontinued operations (Note 12)	-	53
Net loss for the year	(7,010)	(4,849)
Retained earnings, beginning of year	227,474	232,323
Retained earnings, end of year	$ 220,464	$ 227,474

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(dollars in thousands)

For the year ended December 31	2003	2002
Cash provided by (used in)		
Operating activities		
Loss before discontinued operations	$ (7,010)	$ (4,902)
Items not affecting cash		
Amortization (Schedule 2)	14,659	14,191
Gain on disposal of property, plant and equipment	(372)	(166)
Pension/non-pension expense	5,056	2,681
	12,333	11,804
Changes in non-cash working capital balances		
Accounts receivable	(912)	1,543
Inventory	39	1,207
Prepaid expenses	80	(121)
Accounts payable and accrued liabilities	(1,435)	(783)
Deferred revenue	503	77
Discontinued operations (Note 12)	-	54
	10,608	13,781
Investing activities		
Investment in property, plant and equipment	(16,140)	(17,001)
Proceeds from sale of property, plant and equipment	1,037	722
Decrease in other assets	(148)	(105)
	(15,251)	(16,384)
Financing activities		
Reduction of long-term debt (Note 5a)	(2,202)	(2,181)
Contributions from the Province of Ontario	4,221	3,398
Operating line of credit	6,000	5,079
Other liabilities	(1,565)	(1,538)
	6,454	4,758
Change in cash and cash equivalents during the year	1,811	2,155
Cash and cash equivalents, beginning of year	(248)	(2,403)
Cash and cash equivalents, end of year	$ 1,563	$ (248)
Supplemental disclosure of cash flow information:		
Interest paid during the year and included in net loss	$ 2,303	$ 2,260

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Schedule of Investment in Property, Plant and Equipment
Schedule 1

(dollars in thousands)

For the year ended December 31			2003	2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Rail Services				
Roadway	$ 216,671	$ 80,253	$ 136,418	$ 131,071
Buildings	36,756	13,860	22,896	23,090
Equipment	77,091	38,775	38,316	38,851
Under construction	1,098	-	1,098	2,353
Telecommunications				
Equipment	130,227	84,794	45,433	49,801
Buildings	5,557	3,516	2,041	2,095
Under construction	806	-	806	844
Bus services				
Coaches	10,135	3,753	6,382	5,303
Under construction	28	-	28	-
Marine Services (Moosonee)				
Vessels	385	304	81	91
Under construction	-	-	-	264
Development				
Land and buildings	3,476	1,208	2,268	2,550
Land held for resale	650	-	650	650
	$ 482,880	$ 226,463	$ 256,417	$ 256,963

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Schedule of Operating Revenues and Expenses
Schedule 2

(dollars in thousands)

For the year ended December 31	2003	2002
Rail Services		
Sales revenue (Note 11)	$ 60,827	$ 62,929
Government reimbursement (Note 6a)	20,428	19,927
Operating revenue	81,255	82,856
Operating expense	70,559	68,110
Operating income	10,696	14,746
Amortization	7,236	7,116
Gain on sale of property, plant and equipment	(171)	(87)
Interest expense	1,654	1,769
Income from operations	1,977	5,948
Telecommunications		
Sales revenue (Note 7)	36,945	37,745
Operating expense	36,536	35,387
Operating income	409	2,358
Amortization	6,290	6,014
Loss on sale of property, plant and equipment	76	1
Loss from operations	(5,957)	(3,657)
Bus Services		
Sales revenue	10,212	10,090
Operating expense	9,268	8,934
Operating income	944	1,156
Amortization	559	528
Loss on sale of property, plant and equipment	21	55
Income from operations	364	573
Marine Services (Moosonee)		
Sales revenue	129	124
Government reimbursement (Note 6a)	73	73
Operating revenue	202	197
Operating expense	342	191
(Loss) income from operations	(140)	6

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Schedule of Operating Revenues and Expenses
Schedule 2 (continued)

(dollars in thousands)

For the year ended December 31	2003	2002
Rental Properties		
Sales revenue	567	565
Operating expense	332	314
Operating income	235	251
Amortization	37	49
Gain on sale of property, plant and equipment	(298)	(135)
Income from operations	496	337
Administration		
Operating revenue	-	-
Operating expense	6,607	4,869
Operating loss	(6,607)	(4,869)
Amortization	537	484
Interest expense	649	491
Loss from operations	(7,793)	(5,844)
Total Operations		
Sales revenue	108,680	111,453
Government reimbursement (Note 6a)	20,501	20,000
Total revenues	129,181	131,453
Expenses	123,644	117,805
Operating income	5,537	13,648
Amortization	14,659	14,191
Interest expense	2,303	2,260
Gain on sale of property, plant and equipment	(372)	(166)
Loss from operations (i)	$ (11,053)	$ (2,637)

(i) Note: The above figure is before Service improvement plan costs (Note 1) and discontinued operations (Note 12).

Summary of Significant Accounting Policies

For the year ended December 31

Nature of Business	The Ontario Northland Transportation Commission, an Operational Enterprise of the Ontario government, delivers a variety of commercial and non-commercial services, including rail freight, passenger rail, bus and telecommunications.
Basis of Accounting	These consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc, O.N. Tel Inc., Star Transfer Limited, Air-Dale Limited and Nipissing Central Railway Company.
Inventory	With the exception of used rail, all materials and supplies are valued at average cost. Used rail is shown at unamortized book value determined at the time of retirement.
Self-Insurance Fund	The self-insurance fund assets are stated at acquisition cost.
Investment in Property, Plant and Equipment and Amortization	Property, plant and equipment are stated at acquisition cost. Amortization is calculated using the straight-line method over the estimated service lives of the assets.

The estimated service lives for principal categories of assets are as follows:

Roadway - main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Buildings	50 years
Telecommunications equipment	15 years
Vehicles	3 years
Computer equipment	5 years
Coaches	12 years

The Province of Ontario reimburses the Commission for the cost of certain property, plant and equipment purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to Net Investment in Property, Plant and Equipment (Province of Ontario). Annual amortization on these property, plant and equipment is recorded as a reduction of the Net Investment in Property, Plant and Equipment (see page 4).

Summary of Significant Accounting Policies

For the year ended December 31

Employee Future benefits

Pension Plans	The Commission maintains a defined benefit pension plan for its employees. The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. Pension fund assets are valued using current market values. The Accrued Pension Benefit Asset or Obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practice using management's best estimates.
Non-Pension Benefit Plans	The Commission offers non-pension post retirement benefits such as group life, health care and long-term disability to employees through defined benefit plans. The costs associated with these future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. In addition, as a Schedule 2 employer under the Workplace Safety and Insurance Board (WSIB), the Commission recognizes workers compensation benefits on an accrual basis using actuarial calculations provided by the WSIB for benefits in force, benefits not yet awarded and administrative loading costs.
	Both Pension and Non-Pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and experience gains or losses. Experience gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plans. These expenses are recorded in the year in which employees render services to the Commission (See Note 4).
Vacation Pay	Vacation pay is not accrued but is instead expensed in the year it is taken.

Summary of Significant Accounting Policies

For the year ended December 31

Revenue Recognition	Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Revenues from other sources are recognized when earned, with the exception of federal government reimbursements. Reimbursements, upon audit verification of yearly losses are recorded on a cash basis. Advance payments made prior to final determination of losses are recorded on an accrual basis. Telecommunications toll revenue adjustments are recognized when measurement is reasonable (see Note 7).
Income Taxes	As an Operational Enterprise of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.
Accounting Estimates	Preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.
Cash and Cash Equivalents	Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

Notes to Consolidated Financial Statements

For the year ended December 31

1. Status of Service Improvement Plan

   In the spring of 2000, the Minister of Northern Development and Mines directed the Commission to review all services it provided with a goal of developing a Service Improvement Strategy by the fall of that same year.

   On December 4, 2000, the Commission accepted the recommendations of a Service Improvement Plan performed by an independent consulting firm. On December 13, 2000, the Minister of Northern Development and Mines accepted the recommendations of the Commission and directed it to implement the recommendations in a phased approach.

   In two phases the Minister directed the ONTC to pursue the divestment, reorganization or alternate delivery of certain of its operations and the improvement or enhancement of those remaining. In fiscal 2002 the Commission took certain steps to implement parts of the Service Improvement Plan recommendations such as, the divestiture of the Owen Sound Transportation Company, Limited (OSTC) and accepting and evaluating Request for Proposals (RFP's) submissions for both the Rail Services and Telecommunications divisions . In early 2003 the Commission made its recommendations to the Ontario Government including the Minister of Northern Development and Mines for approval, subject to certain conditions. In June of 2003, the Canadian National Railway Company withdrew an offer to purchase rail assets and in July of 2003 the Commission was directed to enter into exclusive negotiations with TELUS in order to formalize a strategic alliance with O.N. Tel Inc. These negotiations have continued into 2004.

   In complying with the recommendations set out in the Service Improvement Plan the Commission incurred costs in the amount of $878,000 (2002 - $2,309,000) during the year. These costs consisted primarily of consulting fees and legal fees in carrying out the recommendations. The cumulative amount expensed since the initiation of the Service Improvement Plan in fiscal 2000 is $7,665,000. At the end of fiscal 2003 the Commission, in accordance with its previously disclosed intentions, applied to the Ministry of Northern Development and Mines to have all of these costs reimbursed. Subsequent to year end it was confirmed by this Ministry that $4,900,000 would be reimbursed and as such this amount has been presented in these financial statements as a recovery on the statement of operations and retained earnings and is included in accounts receivable.

2. Self-Insurance Fund

   The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a $100,000 premium paid by the Commission in addition to investment income earned on fund assets. The Commission had no additional charges (2002 - $1,000,000) to operations. Fund assets include investments in federal and provincial government bonds and cash in the amount of $5,593,000 (2002 - $5,374,000), and $200,000 payable by ONTC. Interest rates on the above mentioned bonds vary from 3.7% to 14.0% per annum. Maturity dates on these investments are staggered ranging from June 15, 2006 to June 2, 2009.

Notes to Consolidated Financial Statements

For the year ended December 31

3. Operating Line of Credit

The Commission negotiated an operating line of credit in early January 2002 with the Ontario Financing Authority (OFA) in the amount of $20,000,000 which was subsequently increased to $22,000,000 later in 2002. Of this amount $18,000,000 was being utilized at the end of 2003 (2002 - $12,000,000). In addition, the Commission also has a revolving operating line of credit with the OFA in the amount of $5,000,000. Of this amount $5,000,000 was being utilized at the end of 2003 (2002 - $5,000,000). Both of these operating lines bear interest at the Province of Ontario's cost of borrowing plus 25 basis points based on the date of each advance.

4. Employee Future Benefits

The Commission is the administrator of its contributory pension plan which covers all permanent staff. The pension fund assets primarily include marketable securities, real estate and corporate and government bonds, which are invested by professional investment managers.

Included in the accrued non-pension benefit liability is worker's compensation benefits in the amount of $10,953,000 (2002 - $12,608,000). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2002. The valuation at December 31, 2003 is not expected to be ready until after the date of financial statement preparation. It is management's opinion that the balance at December 31, 2003 will not be significantly different.

a. Accrued Pension Benefit Assets

	2003	2002
Projected benefit obligations	$ 365,788,000	$ 349,450,000
Market value of plan assets	434,359,000	407,558,000
Surplus	68,571,000	58,108,000
Accrued benefit assets - beginning of year	131,530,000	130,174,000
(Expense) recovery	(3,060,000)	1,251,000
Funding contributions	148,000	105,000
Accrued benefit assets - end of year	$ 128,618,000	$ 131,530,000

Notes to Consolidated Financial Statements

For the year ended December 31

4. Employee Future Benefits (continued)

b. Accrued Non-Pension Benefit Obligation

	2003	2002
Accrued benefit obligation (not including WSIB)	$ 45,342,000	$ 42,047,000
Market value of plan assets	-	-
Unfunded liability	45,342,000	42,047,000
Accrued benefit liability - beginning of year	53,720,000	51,326,000
Expense	1,996,000	3,932,000
Funding contributions	(1,566,000)	(1,538,000)
Accrued benefit liability - end of year	$ 54,150,000	$ 53,720,000

c. Components of Net Periodic Pension Benefit Recovery

	2003	2002
Current service cost	$ 7,240,000	$ 6,806,000
Interest on accrued benefit obligation	22,490,000	21,978,000
Expected return on plan assets	(29,771,000)	(30,912,000)
Net amortization for the year	3,101,000	877,000
	$ 3,060,000	$ (1,251,000)

d. Components of Net Periodic Non-Pension Benefit Expense

	2003	2002
Current service cost	$ (844,000)	$ 1,207,000
Interest on accrued benefit obligation	2,840,000	2,725,000
	$ 1,996,000	$ 3,932,000

e. Weighted Average Assumptions

Discount rate - pension	6.25	6.50
Discount rate - non pension	6.50	6.75
Expected long-term rate of return on plan assets	7.50	7.25
Rate of compensation increase	4.00	4.00
Medical cost increases	4.5% to 9.0%	4.50% to 9.0%

Notes to Consolidated Financial Statements

For the year ended December 31

5. Long-term Debt

		2003	2002
a.	Loan from Ontario Financing Authority, bearing interest at 5.64% per annum, blended monthly payments of $43,000 for 10 years beginning May 1, 1998.	$ 1,980,000	$ 2,374,000
	Loan from Ontario Financing Authority, bearing interest at 5.60% per annum, blended monthly payments of $156,000 for 15 years beginning January 1, 2000.	15,370,000	16,358,000
	Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, blended monthly payments of $109,000 for 15 years beginning September 1, 1999.	10,161,000	10,809,000
	Vendor take back loan on an asset purchase that bears 0% interest, repayable over 8 years in accordance with the terms of the purchase agreement.	988,000	1,160,000
		28,499,000	30,701,000
Less current portion		2,276,000	2,223,000
		$ 26,223,000	$ 28,478,000

Payments required in the next five years and thereafter are as follows:

2004	$ 2,276,000
2005	2,404,000
2006	2,540,000
2007	2,683,000
2008	2,486,000
Thereafter	16,110,000
	$ 28,499,000

b. Included in Investment by the Province of Ontario is a $35,208,000 non-interest bearing loan with no specific repayment terms from the Province of Ontario which two years ago was reclassified to Investment by the Province of Ontario. This was done to be consistent with how the loan was reflected in the Province of Ontario's consolidated financial statements. The Province, recognizing the concessionary nature of the loan, classified it as an equity investment in the Commission.

Notes to Consolidated Financial Statements

For the year ended December 31

6. Government Reimbursement

a. In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry have entered into annual contribution agreements which define the amount of compensation which the Province of Ontario would provide in each fiscal year. Starting in fiscal 2002 the provincial government began to fully reimburse losses on the passenger train services.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. Negotiations between the Commission and Transport Canada concluded in 1996. The amount of annual reimbursement was fixed at $2,500,000 for a five year period expiring in 2001. Temporary agreements have been reached in the past two years to extend the original agreement noted above at the same terms on a year to year basis.

Details of Government reimbursement are as follows:

	2003	2002
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	$ 17,928,000	$ 17,427,000
Marine Services (Moosonee)	73,000	73,000
Discontinued operations (Note 12)	-	928,000
	18,001,000	18,428,000
From Transport Canada:		
Current year's operations	2,500,000	2,500,000
	$ 20,501,000	20,928,000

The Commission is dependent on these reimbursements to carry out its non-commercial operations.

b. Included in the Contributions from the Province is $1,744,000 received during the current fiscal year relating to a one-time approval to finance capital expenditures for O.N. Tel Inc in the amount of $3,000,000.

Notes to Consolidated Financial Statements

For the year ended December 31

7. Telecommunications Revenue

The Commission's Telecommunications Division has a traffic agreement with Bell Canada that permits the two companies to exchange and settle on the toll traffic that traverses their network. During fiscal 2002 and 2003 the Access Tariffs charged by the Local Exchange Carriers were based on an interim decision made by the CRTC in late 2001 which is not expected to be finalized by the CRTC until sometime in 2004. In keeping with the Commission's accounting policy any revenue or cost adjustments whether positive or negative are to be recognized in the year in which they become known and estimable.

8. Contingencies/Commitments

Various statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance after application of a $2,000,000 deductible. Should any loss result, it would be charged to operations when the amount is ascertained.

In 1998 a claim for $3,000,000 was submitted to the National Transportation Agency for partial reimbursement of the write-down of railway passenger rolling stock. The likelihood of the success of the claim remains not determinable at this time and as a result is not reflected in these financial statements.

The Commission has contractual obligations on a number of operating leases for such items as rail cars, computer equipment, automotive equipment and other. It is management's opinion that in aggregate the annual cost of these leases is not significant to the Commission as a whole.

The Commission is also obligated to certain job guarantee agreements with a significant number of its unionized employees.

9. Financial Instruments

The Commission's financial instruments consist of cash and bank, term investments of the self insurance fund, accounts receivable, bank overdraft, operating line of credit, accounts payable and long-term debt. Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from these financial instruments.

10. Related Party Transactions

During the year, the Commission charged the ONTC Contributory Pension Fund $189,000 (2002 - $296,000) for financial and administrative support.

11. Economic Dependence

During 2003, the Rail Services Division derived 45% (2002 - 47%) of its revenue from three major customers.

Notes to Consolidated Financial Statements

For the year ended December 31

12. Discontinued Operations

As part of the recommendations of the Service Improvement Plan conducted in fiscal 2000 the Commission implemented one of the items in Phase I being the reorganization of its wholly owned subsidiary Owen Sound Transportation Company, Limited (OSTC). This was effectively done April 1, 2002 through a share sale of the OSTC to the Province of Ontario with no consideration being received by the Commission and no gain or loss. In addition the operation of Pelee Island has been assumed by the OSTC.

Selected financial information of the Marine Operations are as follows:

	2003	2002
Marine Services (Owen Sound)		
Sales revenue	$ -	$ 2,000
Government reimbursement (Note 6)	-	928,000
Operating revenue	-	930,000
Operating expense	-	929,000
Operating income	-	1,000
Amortization	-	1,000
Net income from operations	-	-
Marine Services (Pelee Island)		
Sales revenue	-	583,000
Operating expense	-	530,000
Net income from operations	-	53,000
Income from discontinued operations	$ -	$ 53,000
Cash flows from the Marine Operations are as follows:		
Operating activities	$	$ 54,000
Investing activities		-
Financing activities		-

13. Subsequent Events

In March 2004, the government approved a decision made by the Commission in February 2004 to extend an early retirement offer to specified group of approximately 220 employees. If all of the qualifying employees accept the terms of this offer the impact on the Commission would be expected to amount to $47,000,000 in additional expenses in fiscal 2004 and an offsetting decrease/increase to the accrued pension benefit assets and accrued non-pension benefit obligation respectively. The expected participation under the terms of this offer is unknown at this time.

Statement of Employees Paid in Excess of $100,000

For the year ended December 31

Name	Position	Salary	Taxable Benefits
Management Personnel			
R M Thompson	Counsel	$ 132,216	$ 728
S G Carmichael	Vice President - Transportation Services	$ 127,494	$ 728
J K G Donnelly	Vice President - Finance & Administration	$ 125,348	$ 711
R J Cushing	Acting Vice President - O.N. Tel	$ 119,379	$ 586
C M Boston	Vice President - Corporate Strategy, Development and Service Improvement	$ 118,867	$ 630
B R Wheeler	Director - Product Development	$ 116,972	$ 672
T A O'Grady	Manager - Train Service and Rules	$ 102,896	$ 96
E Marasco	Senior Director - Track and Structures	$ 101,993	$ 545
J L Thib	Superintendent - Train Operations	$ 100,235	$ 545
Non Management Personnel			
D Church	Conductor	$ 118,708	$ 104
C Cozac	Locomotive Engineer	$ 117,605	$ 104
L Y Picard	Conductor	$ 116,272	$ 104
D R Wood	Locomotive Engineer	$ 114,946	$ 104
C E Corley	Conductor	$ 114,209	$ 104
K O'Grady	Locomotive Engineer	$ 114,045	$ 104
M G Marshall	Locomotive Engineer	$ 113,183	$ 104
M J Kenney	Locomotive Engineer	$ 111,352	$ 104
K L Archer	Locomotive Engineer	$ 110,610	$ 104
W A Quevillon	Conductor	$ 109,591	$ 104
B R Hofferd	Locomotive Engineer	$ 109,005	$ 104
S D Gowlett	Conductor	$ 108,414	$ 104
G Seguin	Locomotive Engineer	$ 108,218	$ 104
B Lacharity	Conductor	$ 107,597	$ 104
W D Sykes	Locomotive Engineer	$ 107,310	$ 104
D R Church	Conductor	$ 106,635	$ 104
D W Hueston	Conductor	$ 104,575	$ 104
J D Mudrick	Conductor	$ 104,196	$ 104
C G Yantha	Locomotive Engineer	$ 104,087	$ 104
P Grant	Locomotive Engineer	$ 103,891	$ 104
W E Routledge	Conductor	$ 102,533	$ 104
J L Miller Jr	Conductor	$ 102,091	$ 104
B D Hagar	Conductor	$ 102,035	$ 104
C G Knight	Locomotive Engineer	$ 101,582	$ 104
J A Fearnley	Locomotive Engineer	$ 101,503	$ 104

Prepared under the Public Sector Salary Disclosure Act, 1996

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.